

OVERVIEW

Medicare Prescription Drug Discount Card and Transitional Assistance Program

Overview

The Medicare Prescription Drug Discount Card and Transitional Assistance Program was enacted into law on December 8, 2003 as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The Administration worked with Congress to provide this voluntary program to give immediate relief to seniors and disabled people covered under Medicare to help reduce their costs for prescription drugs now, before the new Medicare drug benefit is implemented on January 1, 2006. Today, Medicare beneficiaries without outpatient drug coverage pay among the highest prices for prescription drugs, as much as 20 percent higher than people who have drug coverage. Under the Medicare Prescription Drug Discount Card Program, we expect beneficiaries to save an estimated 10 to 15 percent on their total drug spending, with discounts of up to 25 percent or more on individual prescription drugs.

Starting in May, Medicare beneficiaries, except for those who have Medicaid drug coverage, will have the opportunity to enroll in a Medicare-approved prescription drug discount card, which will help to lower their prescription drug costs. Beginning in June, 2004, the discount cards will provide discounts off the regular cash price of prescription drugs. The cards are primarily intended for individuals without outpatient prescription drug insurance. The discount card program is not intended to be a prescription drug benefit, but rather a discount card program to help people until the Medicare drug benefit takes effect on January 1, 2006.

In addition, beginning in June 2004, Medicare will provide \$600 in 2004 and up to an additional \$600 in 2005 to Medicare beneficiaries whose incomes are not more than 135 percent of the poverty line (\$12,123 for single individuals or \$16,362 for married individuals in 2003 – these income levels will vary slightly for subsequent years) if they do not have certain other drug coverage. These funds will be provided through the Medicare-approved drug discount card in which the beneficiary enrolls. When applying the \$600 toward prescription drug purchases, beneficiaries at or below 100 percent of poverty will pay 5 percent coinsurance and beneficiaries above 100 percent of poverty will pay a 10 percent coinsurance. Since, on average, Medicare beneficiaries without prescription drug insurance would otherwise pay about \$1,400 in 2004, the discounts and \$600 in assistance, which many of them will be eligible for, will be of substantial help.

Private sector discount card programs that meet standards set by Medicare can qualify for a Medicare approval/endorsement to provide discounts. Medicare will make sure that beneficiaries have at least two choices of approved cards in each State.

CMS will provide information about the prescription drug prices offered by the approved discount card programs and other information about the Medicare-approved cards and other pharmacy assistance opportunities, through www.Medicare.gov and 1-800-MEDICARE. We plan to make this information available so that beneficiaries can make informed decisions about the options that best meet their prescription drug needs.

Medicare-approved discount card programs can charge a beneficiary an enrollment fee up to \$30 per year. Medicare will pay the enrollment fee for beneficiaries who qualify for the \$600. More information about this program can be found at www.cms.hhs.gov/discountdrugs/.

Eligibility for the Medicare-Approved Prescription Drug Discount Card & \$600

Drug Discount Card Eligibility: Medicare beneficiaries are eligible for the drug discount card program if they are enrolled under Part A or B, so long as the beneficiary is not receiving outpatient drug benefits through Medicaid, including 1115 waivers.

\$600 Eligibility: Beneficiaries are eligible for up to \$600 a year toward prescription drugs if their income is not more than 135% of the poverty line (\$12,123 for single individuals or \$16,362 for married individuals in 2003). Also, to qualify for these funds, beneficiaries must not be receiving outpatient drug coverage from other sources, including Medicaid, TRICARE, group health insurance or health insurance coverage, or FEHBP. Generally, once a person qualifies for the \$600, they are qualified until the new Medicare drug benefit begins.

Enrollment Process

We have established a simple and convenient enrollment process.

- To enroll, the beneficiary will first select the discount card program that best meets his or her needs. The beneficiary will then submit basic information on an enrollment form to the selected approved discount card program about his or her Medicare and Medicaid status. If the beneficiary wants the \$600, he or she also must submit income and other information about retirement and other health benefits, and attest to its truthfulness.
- CMS will verify this information and notify the approved discount card program of the beneficiary's eligibility and enrollment outcome.
- Beneficiaries who are eligible are enrolled and may start obtaining discounts and, if receiving the \$600, using these funds to purchase prescription drugs, as early as the first day of the following month.
- Individuals found to be ineligible for either the discount card or the \$600 may request a reconsideration if they continue to believe they qualify.

Changing Approved Discount Card Programs

An eligible beneficiary can enroll in an approved discount card program at any time. After the initial election, the beneficiary will have the option, for 2005, of choosing a different card program during the annual coordinated election period, between November 15 and December 31, 2004.

- In addition a beneficiary may change cards during a special election period under certain circumstances, such as if the beneficiary has a change in residential status

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to a long-term care facility, a move outside of the area served by the beneficiary's approved program, or elects or disenrolls from a Medicare managed care plan.

Qualifications Sponsor Must Meet for Medicare-Approval

A non-governmental organization that meets all of the qualifications can receive a Medicare endorsement. Multiple organizations may combine capabilities to meet the various requirements. The types of qualifications sponsors must meet include:

- Having relevant organizational experience, including experience in adjudicating and processing pharmacy claims at the point of sale and negotiating with prescription drug manufacturers and others for low prices on prescription drugs
- Being financially stable and reputable
- Meeting service area and pharmacy network access standards
- Administering transitional assistance
- Providing negotiated prices on prescription drugs
- Managing the eligibility and enrollment process
- Providing customer service
- Providing a grievance process
- Complying with HIPAA privacy provisions
- Agreeing to provide data to CMS

Service Area and Pharmacy Network Access

A State is the smallest service area permitted under this program. If the service area includes additional states, then the entire additional state must be included.

Medicare-approved drug discount cards must provide convenient access to retail pharmacies. The minimum requirements are that:

- in urban areas, 90% of Medicare beneficiaries live within 2 miles of a participating pharmacy;
- in suburban areas, 90% of Medicare beneficiaries live within 5 miles; and
- in rural areas, 70% of beneficiaries live within 15 miles.

Medicare-approved programs may offer a mail order option in addition to their contracted retail pharmacy network., but and they are prohibited from providing a mail-order only program, and they may not require enrollees to use mail-order pharmacies.

Prescription Drug Offering

Covered Drugs and Formulary: Nearly all prescription drugs that can be purchased at retail pharmacies are eligible for discounts and use of the \$600. Syringes and medical supplies associated with the injection of insulin – needles, alcohol, and gauze – are also included. We anticipate that many approved programs will use formularies to obtain deeper discounts on prescription drugs. A formulary is a specific list of drugs for which discounts are offered. However, even if a drug is not on the sponsor's formulary, the \$600 can still be used to purchase the prescription drug.

If an approved discount card program uses a formulary, at a minimum, each program must offer a discount on the types of drugs commonly needed by Medicare beneficiaries (both seniors and individuals with disabilities) in more than 200 classes of drugs.

Rebates, Discounts, & Pass Through: Medicare-approved discount card programs must obtain rebates from drug manufacturers and other discounts to help lower the costs of prescription drugs purchased by their enrollees. We expect that a substantial share of these rebates and discounts will be passed through to card enrollees at the point of sale. Because approved programs will be competing for Medicare beneficiaries, the programs will have an incentive to offer the lowest possible prices.

Over-the-Counter (Non-Prescription) Drugs: Approved discount card programs, if they choose, may offer discounts on over-the-counter drugs. However, the \$600 cannot be used to purchase these drugs.

Preventing "Bait and Switch.": Approved discount card programs can update their prices and list of drugs offered for a discount on a weekly basis. However, CMS will monitor drug price changes, and will identify if programs deviate from expected changes, such as those in average wholesale price.

\$600 Proration and Rollover

To encourage Medicare beneficiaries to enroll in the program earlier rather than later, but to provide sufficient time for beneficiaries to learn about the drug card program and their option to join, in 2004 eligible beneficiaries will receive the full \$600. In 2005, however, the \$600 will be prorated depending on when a beneficiary first applies for the funds. The \$600 will be reduced for late enrollees every quarter by \$150 starting in April 2005. In most cases, funds made available but not spent in one calendar year may carry over into the following year and will remain available through early 2006.

Customer Service and Information & Outreach

Approved discount card sponsors will be required to provide program information, such as enrollment fees and prescription drug prices, to eligible Medicare beneficiaries. They also have to provide a process to reduce medication errors, such as drug interactions and other safety features, like allergy alerts.

Medicare approved drug discount card programs will each maintain a toll-free customer call center that is open during usual business hours.

Privacy

Approved discount card sponsors must comply with the HIPAA privacy provisions protecting beneficiaries' health information. A beneficiary's protected health information (PHI) can only be used for the health care operations and marketing of products and services that come under the scope of the Medicare endorsement. The statute provides additional restrictions beyond the HIPAA privacy provisions that prevent a sponsor from seeking authorization from a beneficiary to use PHI for any activity outside the scope of the Medicare endorsement, including marketing.

CMS Oversight and Reporting

General oversight: The Medicare program will operate a grievance and complaint tracking system, including intake from 1-800-MEDICARE. Complaints and reported information will be analyzed to identify trends that indicate poor card sponsor performance, including those related to:

- Savings garnered and shared by manufacturer and pharmacy;
- Appropriate management of the \$600 funds;
- Enrollment and disenrollment;
- Marketing;
- Pharmacy network access;
- Customer service; and
- Confidentiality of enrollee records.

Intermediate Sanctions and Termination: CMS and OIG may impose intermediate sanctions, civil monetary penalties (CMPs), or terminate a contract based on a sponsor's failure to meet the requirements or standards set by Medicare for this program.

CMS Educational and Outreach Efforts

Medicare will provide general information about how the program operates, and who can qualify and how to join, as well as some comparative information on card sponsors at least 30 days prior to the initial enrollment date through www.medicare.gov and 1-800-MEDICARE. Other information sources will include a dedicated brochure for beneficiaries, a section in the *2005 Medicare & You* handbook, a national multi-media campaign, and State Health Insurance Programs and community organizations, among others.

- **Price comparison website** will provide a mechanism for Medicare beneficiaries to compare negotiated prices, fees, and other card program features. The negotiated prices displayed will be a drug's maximum price for an approved sponsor's service area. Actual prices may vary, but will not be more than the posted prices.

- **1-800-MEDICARE** will be used to answer questions about the program, walk-through price comparison website, log calls, and refer to appropriate sponsor or other resources (such as, make appropriate referrals for eligibility determination or to their State Pharmacy Assistance Program).

Medicare Managed Care Plans Offering “Exclusive Card Programs”

Medicare managed care plans (i.e., Part C organizations providing coordinated care plans, and Medicare cost reimbursement contractors) may offer “exclusive card programs” that limit enrollment to their own Medicare managed care plan members. In wrapping the discount card around the plan’s drug benefit (if any), the plan can apply the \$600 toward drug benefit copayments and deductibles, as well as apply the balance of the \$600 to additional drugs that either are not covered under the plan’s benefit or for drugs when the plan’s benefit cap is reached.

Options for States

States can coordinate with a Medicare-approved program, or encourage their own privately run program to apply for endorsement - such programs must meet the qualifications for endorsement. States may also choose to pay the enrollment fees for non-low income beneficiaries and coinsurance for low-income beneficiaries receiving the \$600. However, no federal matching payments are available for these state expenditures.

General Solicitation & Application Review Process

Organizations will need to complete a detailed application concerning their qualifications and all facets of their proposed drug discount card program. There will be no specific limit to the total number of Medicare-approved drug discount card programs. All qualified applicants can enter into a contract with CMS.

- There will be a separate application for Medicare managed care exclusive card sponsors.

Competition for “Special Endorsement”

In addition to the general endorsement to offer a Medicare-approved drug discount card program, organizations will have the opportunity to apply for “special endorsement” to provide transitional assistance to:

- residents of long term care (LTC) facilities, to include nursing facilities and skilled nursing facilities, through long term care pharmacies, and to
- American Indians/Alaska Natives (AI/ANs) who use Indian Health Service, Indian Tribe and Tribal Organization, and Urban Indian Organization (I/T/U) pharmacies.

A special endorsement to provide discounts only (not transitional assistance) may also be granted to sponsors who serve residents of the U.S. territories, which include American Samoa, Commonwealth of the Northern Mariana Islands, Guam, Commonwealth of

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Puerto Rico, and the Virgin Islands, through retail pharmacies in these regions and mail order.

Special endorsement for providing access to each type of pharmacy – long term care pharmacies, I/T/U/ pharmacies, and pharmacies serving territories -- will be competitively awarded to the card sponsors with the best plans.

Transitional Assistance in the Territories

Transitional assistance in the territories is a separate and distinct program from the Medicare-approved prescription drug discount cards. Territories will be asked to submit plans for using a one-time prescription drug assistance grant (totaling \$35 million across the territories) to provide transitional assistance for covered drugs to some or all low-income Medicare beneficiaries with incomes below 135 percent of the poverty line, including beneficiaries with Medicaid.

Impact Analysis Results

Estimated Uptake	2004	2005
Discount only	2.6M	2.7M
Prescription drug assistance	4.7M	4.7M
Total	7.3M	7.4M
Discount Savings	\$1.4-\$1.8B	\$2.0-\$2.7B
Estimated Savings from TA	\$2.4B	\$2.6B

Enrollment uptake is based on an estimated 15.4 million beneficiaries who are eligible for (and can benefit from) either the card only, or for the card and \$600.

Sponsor Costs: A \$30 annual enrollment fee covers all (or nearly all) of a sponsors' costs of operations, assuming these fees are collected in 2004 and 2005 (fee not allowed in 2006 transition period), which would allow a sponsor to pass through a substantial share of the rebates, discounts, and other price concessions they negotiate with manufacturers and pharmacies.